



25 Sigourney Street
Hartford CT 06106-5032

STATE OF CONNECTICUT
DEPARTMENT OF REVENUE SERVICES

IP 2005(16)

INFORMATIONAL PUBLICATION

**Connecticut Income Tax Treatment of State Lottery Winnings
Received by Residents and Nonresidents of Connecticut**

Purpose: This Informational Publication answers frequently asked questions about the Connecticut income tax treatment of state lottery winnings (including Connecticut lottery winnings). Frequently asked questions about gambling winnings other than state lottery winnings are answered in **Informational Publication 2005(15), Connecticut Income Tax Treatment of Gambling Winnings Other Than State Lottery Winnings**.

Effective Date: Upon issuance.

Statutory Authority: Conn. Gen. Stat. §§12-700 to 12-746, as amended by 2002 Conn. Pub. Acts 1, §81 (May 9 Spec. Sess.). Conn. Agencies Regs. §12-705(b)-2.

Definitions:

DRS means the Department of Revenue Services.

IRS means the Internal Revenue Service.

State lottery winnings means lottery winnings from a wager placed in a state-conducted lottery, where the wager is placed with the state agency conducting the lottery or with its authorized employees or agents. State lottery winnings include Connecticut lottery winnings.

Connecticut lottery winnings means lottery winnings from a wager placed in the Connecticut Lottery, where the wager is placed with the Connecticut Lottery Corporation or with its authorized employees or ticket agents. Connecticut lottery winnings include Powerball winnings if the Powerball ticket was purchased from a Connecticut Lottery ticket agent.

Reportable state lottery winnings means state lottery winnings the state agency conducting the lottery is required under the Internal Revenue Code or Regulations to report to the IRS.

State lottery winnings are reportable to the IRS where the state agency conducting the lottery requires a winner to complete federal Form W-2G, Certain Gambling Winnings.

Reportable Connecticut lottery winnings means Connecticut lottery winnings (including Powerball winnings) the Connecticut Lottery Corporation is required under the Internal Revenue Code or Regulations to report to the IRS. The Connecticut Lottery Corporation is required to report Connecticut lottery winnings to the IRS if the amount paid to the winner(s) is **\$600 or more**, and **at least 300 times the amount of the wager**.

Proceeds from a wager means the amount determined by reducing the amount received from a winning wager by the amount of the wager. The withholding of federal or state income taxes, when required, does not affect the calculation of the proceeds from a wager. Also, if a person makes multiple wagers, the proceeds from each wager are calculated separately. For example, if a person purchases 10 Connecticut Lottery tickets (at \$1 apiece) for the same drawing, and one of the tickets wins \$5,500, the amount of the proceeds from the winning wager (\$5,499) is determined by reducing the amount received (\$5,500) by the amount of the wager (\$1). The amount of the proceeds from each other wager is \$0.

1. Are state lottery winnings subject to Connecticut income tax?

If a winner is a resident of Connecticut (resident) and meets the gross income test (see Page 3), all gambling winnings, including state lottery winnings, to the extent includable in the winner's federal adjusted gross income, are subject to Connecticut income tax whether or not the winnings are Connecticut lottery winnings or from any wagering transaction or gambling activity in Connecticut.

If a resident's winnings are reportable state lottery winnings (but not reportable Connecticut lottery winnings), and the winner is required to file an income tax return and to pay income tax to the other state on those state lottery winnings, he or she is eligible to claim a credit against his or her Connecticut income tax for income tax paid to the other state on those reportable state lottery winnings. To claim the credit, he or she must file **Form CT-1040**, *Connecticut Resident Income Tax Return*, and complete *Schedule 2*, Credit for Income Taxes Paid to Qualifying Jurisdictions. A copy of the nonresident return filed with the other state must be attached to Form CT-1040.

If a winner is a part-year resident of Connecticut (part-year resident) and meets the gross income test (see Page 3), gambling winnings, to the extent includable in the winner's federal adjusted gross income, are subject to Connecticut income tax:

- **Winnings received during residency portion of the taxable year.** If the winnings are received during the residency portion of the winner's taxable year, all gambling winnings, to the extent includable in the winner's federal adjusted gross income, are subject to Connecticut income tax.

If the winnings are reportable state lottery winnings, but not Connecticut lottery winnings, and the winner is required to file an income tax return and to pay income tax to another state on those state lottery winnings, he or she is eligible to claim a credit against his or her Connecticut income tax for income tax paid to the other state on the portion of those reportable state lottery winnings received during the residency portion of his or her taxable year. To claim the credit, he or she must file **Form CT-1040NR/PY**, *Connecticut Nonresident and Part-Year Resident Income Tax Return*, and complete *Schedule 2*. A copy of the nonresident return filed with the other state must be attached to Form CT-1040NR/PY.

- **Winnings received during the nonresidency portion of the taxable year.** If the winnings are received during the nonresidency portion of the winner's taxable year, the winnings are subject to Connecticut income tax only if they are reportable Connecticut lottery winnings.

Reportable state lottery winnings paid to a part-year resident are subject to the special accrual rules as follows:

- A part-year resident who wins a state lottery (other than the Connecticut Lottery) and receives reportable state lottery winnings after a change of residency status must recognize the winnings under the special accrual method.
- A part-year resident who wins the Connecticut Lottery and receives reportable Connecticut lottery winnings after a change of residency status need not recognize the winnings under the special accrual method, because the Connecticut Lottery Corporation will withhold Connecticut income tax from the winnings.

If a winner is a nonresident of Connecticut (nonresident) and meets the gross income test (see Page 3), gambling winnings, to the extent includable in the winner's federal adjusted gross income, are subject to Connecticut income tax only if they are reportable Connecticut lottery winnings.

If a winner is an individual who, for federal income tax purposes, is a nonresident alien (and is not a resident of Connecticut) and meets the gross income test (see Page 3), gambling winnings are subject to Connecticut income tax to the extent the winnings are reportable Connecticut lottery winnings. (Nonresident aliens who are residents of Connecticut are subject to Connecticut income tax on all gambling winnings. See *If a winner is a resident of Connecticut*, beginning on Page 1.)

For information on whether an individual is a resident, nonresident, or part-year resident, see the instructions to the Connecticut income tax return for residents (Form CT-1040, Form CT-1040EZ, or Connecticut Telefile Tax Return) or the Connecticut income tax return for nonresidents or part-year residents (Form CT-1040NR/PY).

Gross Income Test

The winner must file a Connecticut income tax return and report his or her gambling winnings if the winner's *gross income* exceeds:

- \$12,000 and the winner's filing status for Connecticut income tax purposes is Married Filing Separately;
- \$12,625* and the winner's filing status for Connecticut income tax purposes is Single;
- \$19,000 and the winner's filing status for Connecticut income tax purposes is Head of Household; **or**
- \$24,000 and the winner's filing status for Connecticut income tax purposes is Married Filing Jointly.

*This amount is \$12,625 for the 2006 taxable year; \$12,750 for the 2007 taxable year; \$13,000 for the 2008 taxable year; \$13,500 for the 2009 taxable year; \$14,000 for the 2010 taxable year; \$14,500 for the 2011 taxable year; and \$15,000 for the 2012 and subsequent taxable years.

A winner's *gross income* includes all income, whether or not Connecticut source income, received in the form of money, goods, property, and services not exempt from federal income tax, and any additions required to be reported on **Form CT-1040, Schedule 1**. Gross income includes, but is not limited to, compensation for services, including wages, fees, commissions, taxable fringe benefits, and similar items; gross income from a business; capital gains; interest and dividends; gross rental income; gambling winnings; alimony; taxable pensions and annuities; prizes and awards; income from partnerships, S corporations, estates, and trusts; individual retirement account distributions; unemployment compensation; and federally taxable Social Security benefits.

If a winner's gross income does not exceed the applicable gross income threshold, and Connecticut income tax has been withheld from his or her gambling winnings, the Connecticut income tax will be refunded to the winner as long as he or she files a Connecticut income tax return and provides proof of Connecticut income tax withholding by attaching federal Form W-2G.

2. Are gambling losses deductible?

Gambling losses are **not** deductible for Connecticut income tax purposes even though, in certain circumstances, they are deductible for federal income tax purposes. Connecticut income tax applies to all gambling winnings included in federal adjusted gross income.

3. Will Connecticut income tax be withheld from reportable Connecticut lottery winnings?

Residents and Nonresidents: The Connecticut Lottery Corporation will withhold Connecticut income tax at the rate of 5% from payments of reportable Connecticut lottery winnings whether or not federal income tax withholding is required.

Nonresident aliens: Connecticut income tax will be withheld from reportable Connecticut lottery winnings of persons who are nonresident aliens, for federal

income tax purposes, whether or not those winnings are subject to federal income tax withholding.

4. Are winners of the Connecticut lottery required to make estimated Connecticut income tax payments?

The Connecticut Lottery Corporation will withhold Connecticut income tax at the rate of 5% from all payments of reportable Connecticut lottery winnings made to a resident or a nonresident whether or not federal income tax is withheld. Resident and nonresident winners who are required to file a Connecticut income tax return (See Question 1, beginning on Page 1) are liable for Connecticut income tax on their reportable Connecticut lottery winnings even if the Connecticut Lottery Corporation does not withhold Connecticut income tax from payments of those winnings. To avoid interest charges for failing to make estimated Connecticut income tax payments, winners should check the amount of Connecticut income tax withholding from payments to see if they need to make estimated Connecticut income tax payments. For information on estimated income tax, request **Form CT-1040ES, Estimated Connecticut Income Tax Payment Coupon**, see *Forms and Publications* on Page 5.)

Connecticut income tax will not be withheld from state lottery winnings other than Connecticut lottery winnings. If the winner is a resident of Connecticut, he or she may need to make estimated Connecticut income tax payments.

5. Is a winner required to provide his or her name, address, and Social Security Number to state lottery officials?

Yes. A winner is required by federal law to complete federal Form W-2G, by providing his or her name, address, and Social Security Number and by signing the declaration of the form under penalties of perjury that the information provided is correct.

6. What if there is more than one winner?

If more than one person is entitled to a share of the winnings, **one** federal Form 5754, Statement by Person(s) Receiving Gambling Winnings, must be completed and identify each person entitled to a share. Federal Form 5754 is also used when the recipient is not a person entitled to a share. This form lists the name, address, and taxpayer identification number of all persons entitled to any payment of the winnings. The form must be signed,

under penalties of perjury, by the person (or persons) receiving the winnings. The payer uses the information on federal Form 5754 to prepare federal Form W-2G for each of the winners.

7. Could a nonresident who receives less than \$600 in Connecticut lottery winnings be subject to Connecticut income tax?

Yes. For example, assume two nonresidents purchase 20 Connecticut lottery ticket for \$1 apiece (with each contributing an equal amount of the ticket price) and one of the tickets wins \$1,000. Even though each winner will receive \$500, each is subject to Connecticut income tax on that amount because the winnings are reportable Connecticut lottery winnings. (The amount paid to winner or winners is \$600 or more and at least 300 times the amount of the wager.)

8. Could a nonresident who receives \$600 or more in Connecticut lottery winnings during a taxable year not be subject to Connecticut income tax?

Yes. For example, assume a nonresident purchases Connecticut lottery tickets regularly and, on two occasions, one of the tickets wins \$500. Even though the aggregate amount paid to the nonresident winner may have been \$600 or more, in no instance were reportable Connecticut lottery winnings paid to the nonresident winner. Therefore, the nonresident winner is not subject to Connecticut income tax on the amounts received.

9. Will payments of state lottery winnings be reported to DRS?

Yes. Connecticut lottery winnings must be reported to the IRS by the Connecticut Lottery Corporation if the winnings are \$600 or more and at least 300 times the amount of the wager. Whenever Connecticut lottery winnings are required to be reported to the IRS, the winnings are required to be reported to DRS (by providing a duplicate of the federal Form W-2G furnished to a winner). The fact that Connecticut lottery winnings may not have been required to be reported to the IRS by the Connecticut Lottery Corporation does not excuse a winner from reporting those winnings for federal and Connecticut income tax purposes.

State lottery winnings (other than Connecticut lottery winnings) must be reported to the IRS by state lottery officials where those officials require a winner to complete federal Form W-2G. While the state

lottery officials of other states will not report state lottery winnings to DRS, the IRS will provide information about the state lottery winnings of Connecticut residents to DRS. The fact that state lottery winnings (other than Connecticut lottery winnings) may not have been required to be reported to the IRS does not excuse a winner who is a resident from reporting those winnings for federal and Connecticut income tax purposes.

Effect on Other Documents: Informational Publication 2003(21), *Connecticut Income Tax Treatment of State Lottery Winnings Received by Residents and Nonresidents of Connecticut*, is modified and superseded and may not be relied upon on or after the date of issuance of this Informational Publication.

Effect of This Document: An Informational Publication issued by the Department of Revenue Services (DRS) addresses frequently asked questions about a current position, policy or practice, usually in a less technical question and answer format.

For Further Information: Call DRS during business hours, Monday through Friday:

- **1-800-382-9463** (in-state), or
- **860-297-5962** (from anywhere)

TTY, TDD, and Text Telephone users only may transmit anytime by calling 860-297-4911.

Forms and Publications: Forms and publications are available anytime by:

- **Internet:** Preview and download forms and publications from the DRS Web site at **www.ct.gov/DRS**
- **DRS TAX-FAX:** Call **860-297-5698** from the handset attached to your fax machine and select from the menu. Only forms (not publications) are available through TAX-FAX.
- **Telephone:** Call **860-297-4753** (from anywhere), or **1-800-382-9463** (in-state) and select **Option 2** from a touch-tone phone.

Paperless Filing Methods (fast, easy, free, and confidential):

- **For business returns:** Use *Fast-File* to file sales and use taxes, business use tax, room occupancy tax, estimated corporation business tax, business

entity tax, or withholding tax returns over the Internet or telephone. Visit the DRS Web site at **www.ct.gov/DRS** and click on ***File/Register OnLine***.

- **For resident income tax returns:** Use ***WebFile*** to file personal income tax returns over the Internet. Visit the DRS Web site at **www.ct.gov/DRS** and click on ***File/Register OnLine***.

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